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Republican Tax Reform Framework

The Trump administration and Republicans in Congress have released [a framework](#) for tax reform legislation that they hope to pass in coming months.

There were few surprises in the framework. The pro-growth elements that party leaders have championed for months are there, including:

- Cutting the corporate tax rate from 35 to 20 percent.
- Cutting the top rate for businesses that pay under the individual code from 40 to 25 percent.
- Expensing business equipment purchases.
- Replacing the worldwide corporate tax system with a territorial system.
- Repealing the estate or death tax.
- Repealing the individual and corporate alternative minimum taxes.
- Simplifying the individual tax rate structure to 12, 25, and 35 percent.

The other main tax cut in the plan is a doubling of the standard deduction, which would not do much for growth but would simplify the system.

The framework suggests that reforms may impose a higher individual rate than 35 percent “to ensure that the wealthy do not contribute a lower share of taxes paid than they do today.” But why shouldn’t high-earners pay less tax? They pay a hugely disproportionate share of federal income taxes today, and they generally have the most dynamic responses to tax cuts.

High-earners generally add more to economic growth than other taxpayers. They are investors, executives, doctors, and other highly skilled individuals. Basic theory indicates that it is the highest tax rates that do the most economic damage. Indeed, tax damage rises rapidly as tax rates rise. If Congress is going to cut any individual tax rates, it should cut the highest rates.

That said, the most important goal for tax reform right now is to cut the corporate tax rate, and the GOP framework moves boldly in that direction. High corporate tax rates reduce capital investment, and that ultimately suppresses wages and opportunities for U.S. workers.

On the whole, the GOP is on the right track. Now they need to really hustle and move specific legislation through Congress and finally deliver a reform plan to the president’s desk.

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